County of Los Angeles
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DAVID E. JANSSEN
Chief Administrative Officer

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Third District

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Fifth District

October 27, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

Michael J. Henry
Director of Personnel

STATUS OF BOARD ORDERED KAISER REVIEW RELATED TO ITEM 24 ON THE SEPTEMBER 28, 2004 BOARD AGENDA

At your Board's September 28, 2004 meeting, the Board approved the recommendations of the Chief Administrative Officer (CAO) and Director of Personnel (DHR) relating to proposed premium rates for County and union sponsored health, dental and life insurance plans for calendar year 2005 (Agenda Item 24). Your Board also ordered, among other actions, the following action:

"Instructed the Chief Administrative Officer and the Director of Personnel to request Kaiser Permanente to open their records and provide detailed information to the County in terms of their current premium rates, a justification of these rates, and a review of associated costs incurred by Los Angeles County, and report back to the Board in 30 days."

Kaiser Review:

The Kaiser Review Will Be Completed Within 60 To 75 Days From The Date Of The Board Order

Our report to the Board on 2005 Kaiser rates was based on our annual, extensive due-diligence process. As an additional precaution, we reviewed a small top to bottom sample of one of the many clinical diagnoses upon which Kaiser's rate development is

based to verify Kaiser's methods. While we had some confidence that Kaiser's rates were reasonable, our consultant, Mercer Human Resource Consulting (Mercer), could not render an unqualified professional opinion that the Kaiser rates were either justified or unjustified based on a small sample.

To comply with the Board order, we have retained Mercer to provide the County with an opinion on whether the Kaiser rates for 2005 are justified or unjustified. This involves an estimated effort on Mercer's part of 450 or more staff hours, including related planning, fact finding, analysis, actuarial and systems work.

The actuarial study is a very comprehensive analysis of inpatient, outpatient and pharmacy utilization data for the County. The study will also review two other local large public agency employers. In order for Mercer to render an unqualified opinion, steps that are a normal part of any audit or actuarial review process must be accomplished. Specific steps include: (a) Kaiser must provide, and Mercer will analyze a clinical sample equal to 25 times the size of our regular due diligence review, (b) Mercer must follow the underlying information through Kaiser's data collection and underwriting processes to insure that data was handled properly, (c) Mercer must sample patient records and outside claims to verify that underlying data are properly supported, (d) Mercer must review a vast amount of information concerning Kaiser's pharmacy costs, and (e) Mercer's draft report must be reviewed with stakeholders (including Kaiser and our unions) and an opportunity given to stakeholders to respond to unexpected or unfavorable findings.

Due to the planning and effort required, it is not possible to complete this work within a 30-day period. Based on progress made to date, we expect to report results to your Board within 60 to 75 days of the original Board order. Kaiser has been cooperative. Mercer has provided our non-negotiable information collection and review demands to Kaiser; and Kaiser has promised to fully meet those requirements in exchange for a confidentiality agreement protecting Kaiser's confidential proprietary business systems, process, and information. Much of the requested information has been supplied by Kaiser, but some remains to be supplied. Kaiser is cooperating to produce the remaining information.

If Mercer's final report is completed earlier than we expect, we will provide it to your Board upon completion.

<u>No Further Action Recommended Until Kaiser Review Is Completed</u>

During your Board's discussion, members expressed concern that Coalition employees might not have any options if annual enrollment were to conclude before the results of

the Kaiser review were known. As a result, the Board ordered that enrollment of employees represented by the Coalition be extended by 15 days to November 15, 2004.

We recommend that the Board take no further action, pending completion of the final Kaiser review report. If the Board ultimately decides to impose a freeze on new hire enrollments in Kaiser, it can do so any time after the final report is completed. In the event Kaiser would agree to reduce its rates for 2005, we have been advised by counsel that the Board could authorize a limited second enrollment that would allow employees to transfer into Kaiser from their current plan. Under Federal rules, transferring out of the plan in mid-year would not be an option, unless an individual employee experienced a qualifying change-of-status event to justify it.

We will provide a final report and recommendations on the open Board orders arising from Item 24 on the September 28 Board Agenda as soon as the work described above is completed, but not later than December 13, 2004. Meanwhile, if you have any questions regarding these matters, please call Frank Frazier of the Chief Administrative Office, at (562) 691-4560, or Marian Hall of the Department of Human Resources, at (213) 738-2255.

DEJ:MJH
WGL:FF:MLH:df

c: Executive Officer, Board of Supervisors
County Counsel
Paul Roller, Chair, Coalition of County Unions
Annelle Grajeda, General Manager, SEIU Local 660
William Caswell, Vice President, Kaiser Permanente